FDIC State Profile

Fall 2005

Maryland and Washington, D.C.

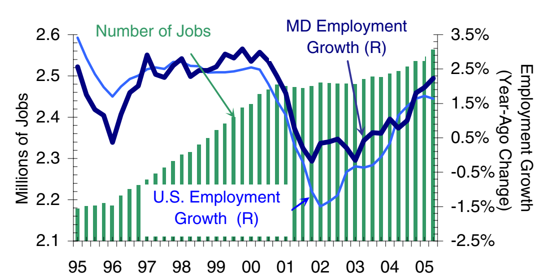
Maryland's employment growth rate continued to grow at a robust pace and exceeded the national average.

- Maryland's job growth has accelerated for the past two years, and the second quarter 2005 growth rate ranked ninth highest in the nation. With approximately 100,000 new jobs added since the end of the 2001 recession, statewide employment levels have reached an all-time high (see Chart 1). Strong demographic trends have fueled gains in retailing, education, and entertainment jobs. Housing-related jobs, including construction and mortgage services, also have been important contributors to the state's economy.
- Except for **Cumberland,** year-over year job growth was widespread across Maryland's metropolitan areas in second quarter 2005. At just under 3.0 percent, the job growth rate was highest in the Washington D.C. metropolitan area. Job losses in Cumberland primarily reflected weakness in the area's manufacturing sector.
- The recent hurricanes have contributed to higher gas prices in Maryland and may lead to higher heating bills this winter. After sharply increasing following Katrina, gasoline prices have eased in recent weeks. However, the price per gallon in Maryland remained higher than the national average.[1] In past years, per capita residential consumption of petroleum in the state has been slightly above the national average.[2]

Home price appreciation in Maryland and Washington, D.C reached a record high in second quarter 2005.

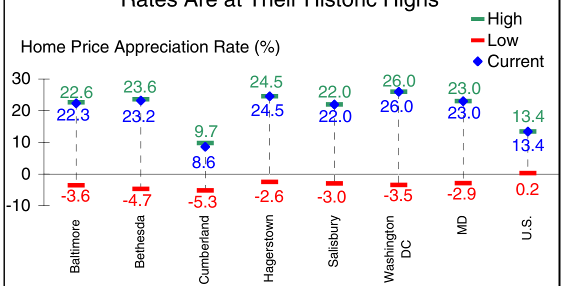
- Strong employment gains, healthy income growth, and low mortgage rates have contributed to robust housing activity in Maryland and Washington, D.C. as home appreciation rates approximated record highs across many housing markets (see Chart 2).[3] Sales of existing homes, however, eased during the first half of 2005.

Chart 1: Maryland Employment Continues to Reach New Highs



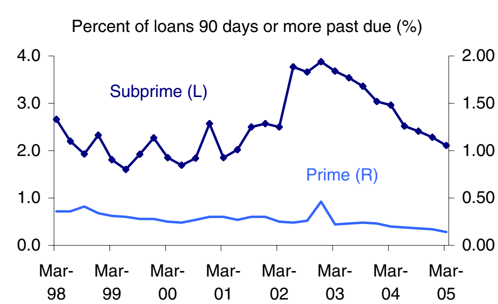
Source: Bureau of Labor Statistics

Chart 2: Maryland's Home Price Appreciation Rates Are at Their Historic Highs



Note: History of current, high and low quarterly home price appreciation rate since 1980 to second quarter 2005. Source: Office of the Federal Housing Enterprise Oversight

Chart 3: Subprime Mortgage Delinquency in Maryland Has Recovered to Pre-recession Levels



Source: Mortgage Bankers Association (Haver Analytics)

[1] American Automobile Association.
[2] Energy Information Administration, U.S. Census Bureau. Energy consumption data available through 2001.
[3] Office of the Housing Enterprise Oversight. Data tracked from first quarter 1980 to second quarter 2005.

- Home prices have increased relative to apartment rents. In Washington, D.C., the average monthly mortgage payment on the median-priced home increased 92 percent during the past five years to $2,577, while apartment rents only increased 2 percent. Monthly mortgage payments relative to rental rates have increased to a lesser degree in **Baltimore**.[4]

Residential loan quality remained favorable in Maryland and Washington, D.C.

- A favorable employment picture has contributed to strong residential loan quality in Maryland and Washington, D.C. In second quarter 2005, the median past due residential loan ratio was almost one-half the national ratio.

- After sharply increasing following the 2001 recession, delinquency rates on subprime mortgages in Maryland have declined and are approaching pre-recession levels, while delinquency rates on prime mortgages remained low (see Chart 3).[5] Higher interest rates and seasoning of mortgage portfolios could result in some weakening of credit quality; borrowers with marginal finances could be more vulnerable to repayment stress.

- Increased use of innovative mortgage products has helped some borrowers purchase homes that are more expensive. During the first half of 2005, the District of Columbia and Maryland ranked fifth and eleventh, respectively, in the nation in the share of interest-only and option ARM loans (potentially negative amortization loans) in securitized mortgage originations.[6] Should interest rates rise, payments on some of these mortgages could escalate. Moreover, should appreciation rates significantly ease, debt owed on some negative amortization loans could exceed the underlying home value.

Construction and development (C&D) loan concentration levels have increased.

- Reflecting strong demand for housing, C&D loans have increased significantly, particularly among banks located on **Maryland's Eastern Shore** (see Chart 4). Home construction has been particularly strong in this area because of a spillover effect from higher priced areas in and around Washington, D.C. and Baltimore and increased demand for second homes. C&D loan quality remained favorable.

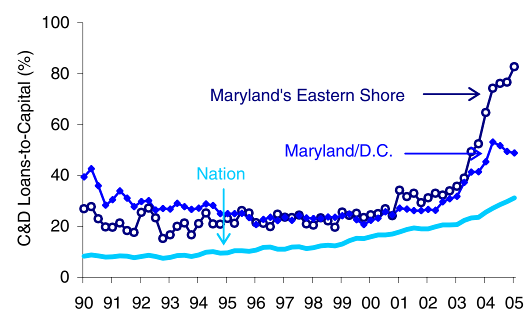
Maryland institutions reported improved profitability compared with one year ago.

- Profitability among the state's insured institutions, as measured by the median return-on-assets, increased slightly in second quarter 2005 compared with one year ago. Net interest margins increased, while loan loss provisions remained at low levels.

- After trailing for several years, CDs led deposit growth in second quarter 2005 (see Chart 5). When short-term interest rates were low, as was the case in 2002 and 2003, the incremental income benefit to depositors from locking into a CD was modest. However, as short-term interest rates rose, depositors returned to CDs in lieu of traditionally lower-yielding products such as money market and savings accounts.

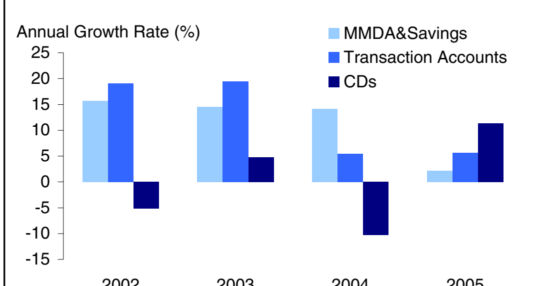
- The effect on funding costs from increased CD growth varies by institution. For banks with large transactional accounts, growth in CDs may contribute to higher funding costs. Alternatively, some banks may be opting for CDs in lieu of wholesale borrowings to manage funding costs in a rising rate environment. Wholesale borrowing costs (non-core funding) typically are higher than CD costs and are more sensitive to movements in market interest rates.

Chart 4: Construction Lending Has Increased Significantly on Maryland's Eastern Shore



Note: Median data. Source: FDIC

Chart 5: Depositors Have Returned to CDs of Maryland and D.C. Banks in the Past Year



Notes: Data are for banks with total assets less than $1 billion excluding thrift institutions. Data are adjusted for mergers. MMDA: Money Market and Demand Accounts. Source: FDIC

[4]National Association of Realtors, Federal Home Loan Mortgage Corporation, Property and Portfolio Research and FDIC estimates. Monthly mortgage amounts based upon 20 percent down payment on a median priced home, at the prevailing 30-year conventional mortgage rates for the second quarters 2000 and 2005. Monthly rent data are weighted averages.
[5]Mortgage Bankers Association (Haver Analytics).
[6]LoanPerformance Corporation. Data represents percentage of securitized Alt-A (low documentation loans) and BC mortgages.

Maryland and Washington, D.C. at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.2%	2.0%	0.8%	1.2%	0.4%
Manufacturing (6%)	-2.6%	-1.5%	-3.8%	-2.9%	-6.1%
Other (non-manufacturing) Goods-Producing (7%)	1.1%	2.5%	5.6%	4.7%	1.2%
Private Service-Producing (69%)	3.0%	2.5%	1.3%	1.5%	1.0%
Government (18%)	1.4%	0.8%	-1.3%	-0.3%	0.2%
Unemployment Rate (% of labor force)	4.3	4.2	4.2	4.2	4.5

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	6.5%	6.6%	8.1%	6.7%	3.9%
Single-Family Home Permits	18.8%	8.5%	-19.5%	-5.8%	-1.4%
Multifamily Building Permits	13.3%	172.0%	25.7%	26.8%	11.4%
Existing Home Sales	0.9%	-0.2%	16.4%	16.4%	2.7%
Home Price Index	23.0%	21.6%	16.6%	18.3%	10.6%
Bankruptcy Filings per 1000 people (quarterly annualized level)	5.43	5.39	5.78	5.32	6.55

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	120	122	127	122	127
Total Assets (in millions)	50,377	47,663	46,323	47,124	43,562
New Institutions (# < 3 years)	7	6	4	6	3
Subchapter S Institutions	4	4	3	4	2

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.81	1.00	1.04	0.93	1.14
ALLL/Total Loans (median %)	0.92	0.94	0.95	0.95	1.00
ALLL/Noncurrent Loans (median multiple)	3.22	2.59	2.08	2.23	1.82
Net Loan Losses / Total Loans (median %)	0.00	0.00	0.00	0.01	0.04

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.70	9.44	9.27	9.27	9.30
Return on Assets (median %)	0.94	0.90	0.85	0.83	0.83
Pretax Return on Assets (median %)	1.34	1.26	1.23	1.17	1.16
Net Interest Margin (median %)	3.95	3.80	3.78	3.74	3.67
Yield on Earning Assets (median %)	5.69	5.51	5.24	5.31	5.54
Cost of Funding Earning Assets (median %)	1.86	1.78	1.60	1.65	1.93
Provisions to Avg. Assets (median %)	0.02	0.02	0.02	0.06	0.05
Noninterest Income to Avg. Assets (median %)	0.47	0.44	0.55	0.49	0.60
Overhead to Avg. Assets (median %)	2.76	2.72	2.75	2.75	2.68

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	70.7	70.1	68.8	69.6	66.8
Noncore Funding to Assets (median %)	21.8	20.5	19.2	20.5	18.9
Long-term Assets to Assets (median %, call filers)	18.7	19.2	20.3	19.0	20.6
Brokered Deposits (number of institutions)	37	35	27	33	22
Brokered Deposits to Assets (median % for those above)	3.0	3.3	5.5	3.3	5.3

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	65.0	64.9	58.5	65.6	55.2
Commercial Real Estate	243.9	241.9	236.7	242.6	237.1
Construction & Development	48.7	48.2	45.3	50.8	41.9
Multifamily Residential Real Estate	2.5	2.8	2.7	2.9	2.3
Nonresidential Real Estate	135.3	144.2	137.5	136.4	134.5
Residential Real Estate	324.3	318.4	310.7	318.8	327.9
Consumer	16.0	17.6	19.9	19.8	19.5
Agriculture	0.6	1.5	2.9	1.3	3.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Washington-Arlington-Alexandria, DC-VA-MD-WV	99	119,767	< $250 million	78 (65%)
Baltimore-Towson, MD	88	40,459	$250 million to $1 billion	33 (27.5%)
Hagerstown-Martinsburg, MD-WV	16	2,641	$1 billion to $10 billion	9 (7.5%)
Cumberland, MD-WV	7	800	> $10 billion	0 (0%)